



# INFORMATIONAL SEMINAR FOR MUNICIPAL OFFICIALS

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March 31, 2005

Presented by  
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Auditor General



# TOPICS OF DISCUSSION

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- Role of the Auditor General's Office
- State Legislation Regarding Municipal Finances
- Budgeting
- Analyzing Audited Financial Statements
- Postemployment Health Care



# Role of the Auditor General's Office

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- The Office of the Auditor General (OAG) independently provides the Legislature, other government officials and the general public with timely, objective and accurate information to enhance fiscal accountability in the State of Rhode Island.



# Role of the Auditor General's Office Cont.

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## **OAG Key Functions**

- Conduct financial and performance audits of state agencies,
- Evaluate state and federally funded programs and activities,
- Provide analyses and recommendations to the Legislature, executive branch and federal officials to improve the use of public resources.



# Role of the Auditor General's Office Cont.

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- Monitor the state's municipalities for compliance with certain laws designed to enhance fiscal accountability,
- Evaluate the financial plans of organizations seeking to establish charter schools, and
- Provide the federal government with independent opinions on the State's expenditure of federal funds and its compliance with federal laws and regulations pertaining thereto.



# Role of the Auditor General's Office Cont.

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## **OAG CORE VALUES**

- Integrity
- Reliability
- Independence
- Accountability



# Role of the Auditor General's Office Cont.

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## **OAG Oversight of Municipalities**

- Rhode Island General Law assigns the Auditor General a number of powers and duties regarding oversight of municipal finances.
- Our office has worked to encourage municipal finance officers to improve fiscal accountability by monitoring and controlling their municipality's financial condition especially during difficult fiscal times.



# Role of the Auditor General's Office Cont.

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- We have worked in cooperation with other state agencies to monitor compliance with Rhode Island general laws designed to promote fiscal accountability by requiring municipalities to:
  - Monitor and control budgetary compliance (45-12-22);
  - Implement timely corrective action responses for projected deficits for municipalities or school districts (45-12-22.2);





# Role of the Auditor General's Office Cont.

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- File timely audit reports (45-10-5);
- Obtain approval for selection of auditors (45-10-4);
- Develop timely corrective action plans to address weaknesses in accounting controls (45-10-6.1);
- Take corrective action to address unfunded pension liabilities (45-10-15);
- Comply with maximum property tax levy laws (44-5-2).



# Role of the Auditor General's Office Cont.

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## **New Strategic Plan**

- Several Rhode Island municipalities have experienced significant fiscal problems over the past few years.
- As an extension of our fiscal oversight responsibilities, this office has devoted extensive resources to help cities and towns resolve their fiscal problems.
- We have provided constructive recommendations on how to restore and maintain fiscal stability in these communities.



# Role of the Auditor General's Office Cont.

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- Due to the growing fiscal stress in many Rhode Island cities and towns, we have incorporated the following strategies into our strategic plan to help municipal officials improve fiscal accountability, maintain fiscal stability during periods of fiscal stress, and avert major fiscal crises.



# Role of the Auditor General's Office Cont.

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1. Provide outreach to municipalities
  - Site Visits
  - The OAG will visit municipalities periodically to:
    - Discuss issues impacting fiscal health,
    - Assess their overall fiscal condition, and
    - Determine measures to remedy significant fiscal problems.



# Role of the Auditor General's Office Cont.

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- During these visits we will also discuss new accounting issues and legislation affecting municipal finances.
- For new finance officers we will communicate the role of our office in assisting municipalities to improve fiscal accountability and maintain fiscal stability.



# Role of the Auditor General's Office Cont.

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- Quarterly Newsletter
  - The OAG will issue a quarterly newsletter to municipalities.
  - The newsletter will provide information on significant municipal finance issues and guidance on sound financial practices designed to enhance accountability and fiscal health.
  - Included in the newsletter will be updates on new accounting pronouncements, upcoming training opportunities, pertinent municipal finance legislation, and other areas of interest.



# Role of the Auditor General's Office Cont.

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- Training

- The Auditor General will offer training to elected officials and finance officers on relevant issues impacting municipal finance.
- Programs will provide guidance on various topics including effective budgeting techniques, accounting and auditing updates, pensions and post employment healthcare, fiscal health indicators, and bond rating analysis.



# Role of the Auditor General's Office Cont.

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## 2. Develop Early Warning System

- Annual Fiscal Health Report
  - The OAG will prepare an annual fiscal health report on municipalities by assessing various fiscal health indicators and developing a system to flag municipalities experiencing fiscal stress.
- Corrective Action Plans
  - The Auditor General will work with municipalities placed on fiscal watch to enable them to implement comprehensive corrective action plans to address fiscal problems.





# Role of the Auditor General's Office Cont.

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## 3. Foster State and Local Initiatives for Corrective Action

- Cooperative Solutions and Legislative Initiatives
  - The OAG will work with other state and local officials to identify and propose solutions for significant fiscal problems facing Rhode Island municipalities. Together we will propose global strategies for enhancing fiscal health and legislation necessary to implement these strategies.



# State Legislation Regarding Municipal Finances

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## **Annual Post Audit – Legal Requirements**

- Rhode Island General Law Section 45-10-4 requires:
  - Municipalities to engage an independent certified public accountant to make a detailed post audit of their financial records;
  - Annual audits of municipalities to be conducted in accordance with generally accepted auditing standards and government auditing standards;
  - Selection of auditors to be subject to final written approval by the State Auditor General. Municipalities shall not engage auditors nor contract for their services until such written authorization is received by the Auditor General.



# State Legislation Regarding Municipal Finances

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- Procedure for Requesting Approval of RFP for Audit Services and Auditor Selection
  - In order to assist municipalities going through the auditor selection process this office has issued Guideline for Audit Bids and Specifications for municipalities.
  - These guidelines contain information that should be included in a request for proposal of audit services, as well as the forms necessary to obtain approval of:
    - the request for proposal prior to its issuance; and
    - the proposed selection of auditor prior to engaging or entering into a contract for services.



# State Legislation Regarding Municipal Finances

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## **Filing Annual Audit Reports—Legal Requirement**

- Rhode Island General Law Section 45-10-5 requires Rhode Island municipalities to file their annual audit reports with the Auditor General and the state Director of Administration no later than six months after the close of the fiscal year.
  - This includes any findings and recommendations made as a result of the audit. General Law Section 45-10-5.2 and 45-10-5.3 provide for sanctions for communities that fail to comply with this requirement.



# State Legislation Regarding Municipal Finances

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- **Procedures for Requesting an Extension of Time**
  - Rhode Island General Law Section 45-10-5 further provides that the Auditor General may in his discretion, grant extensions in the filing of the audit report only upon reasonable cause for such extension being demonstrated by the municipality.



# State Legislation Regarding Municipal Finances

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- Effective for audits of fiscal years ending in 2001 and beyond, procedures were established to petition the Office of the Auditor General for extensions beyond the legal deadline.



# State Legislation Regarding Municipal Finances

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- The procedures for petitioning this office for extensions beyond the legal deadline are as follows:
  - At least 30 days prior to the legal deadline for submission of reports, the chief municipal finance officer must schedule a meeting with the Auditor General.
  - The purpose of this meeting will be to advise the Auditor General that the municipality is unable to comply with the requirements of section 45-10-5 and is requesting an extension of time to file the audit report.
  - This meeting will be held at the Auditor General's office.
  - The municipal finance officer must be accompanied by the partner or manager-in-charge from the firm conducting the audit.



# State Legislation Regarding Municipal Finances

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- The finance officer must file the following written application with the Auditor General at least 5 business days prior to the meeting:
  - A request to receive an extension of time, beyond the legal deadline, to submit the audit report.
  - A confirmation of the date the audit will be completed and submitted to our office (completion date).





# State Legislation Regarding Municipal Finances

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- A detailed description of the reasons why the audit will not be completed by the legal deadline. This should be prepared in conjunction with the auditor.



# State Legislation Regarding Municipal Finances

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- A corrective action plan and timetable. This plan should describe how and when the situations causing the delay will be corrected prior to the start of the audit for the following year.
- The entire application must be signed by the chief executive officer of the municipality.



# State Legislation Regarding Municipal Finances

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- We have adopted these procedures for late filers in order to obtain a better understanding of the causes of these significant delays in filing so that they can be remedied.
- The General Laws require timely submission of municipal audit reports so that information on fiscal accountability will be available to users of financial statements soon enough to be meaningful and useful.



# State Legislation Regarding Municipal Finances

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- In addition, municipal audit reports are used by various state agencies to extract information that is needed within a certain time frame.

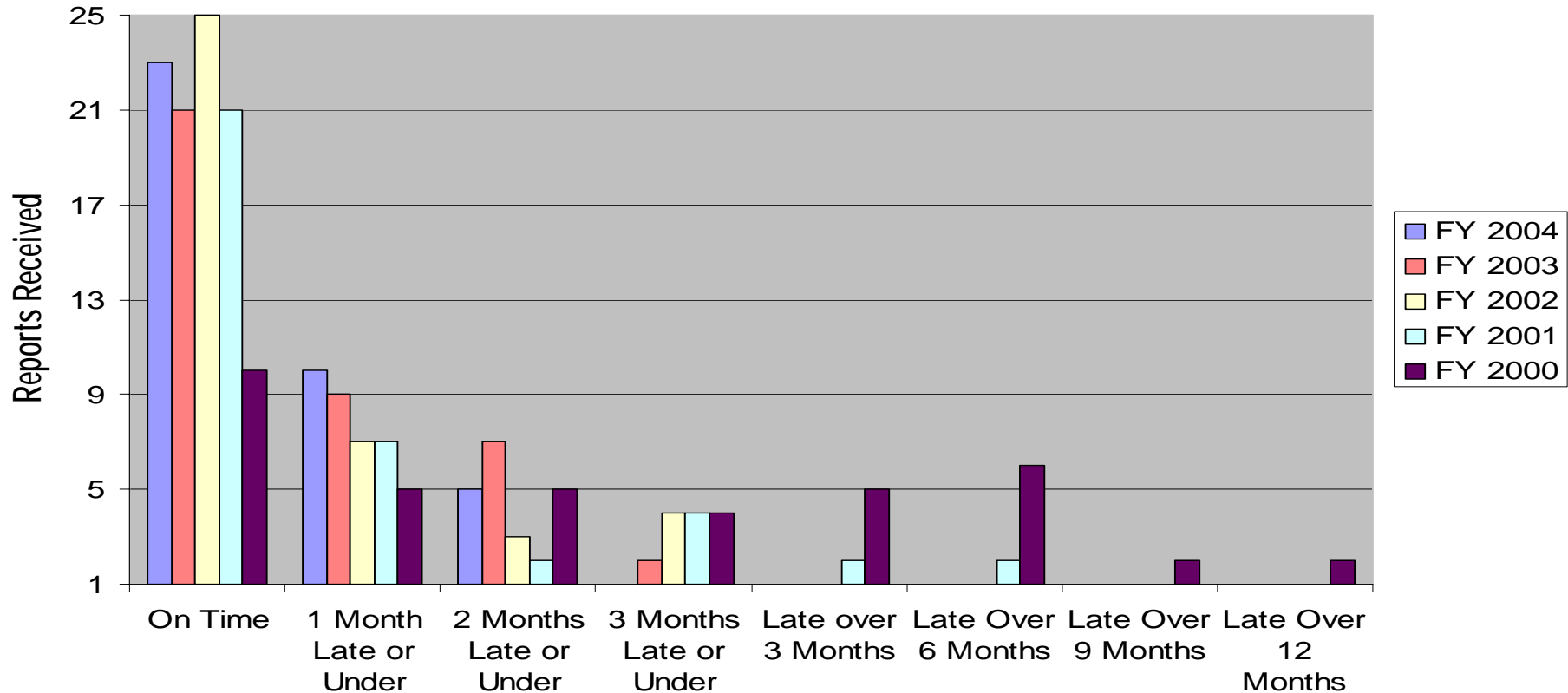


# Audit Report Timeliness

	<u><b>FY 2004</b></u>	<u><b>FY 2003</b></u>	<u><b>FY 2002</b></u>	<u><b>FY 2001</b></u>	<u><b>FY 2000</b></u>
On Time	24	21	25	21	10
1 Month Late or Under	10	9	7	7	5
2 Months Late or Under	5	7	3	2	5
3 Months Late or Under		2	4	4	4
Late over 3 Months				2	5
Late Over 6 Months				2	6
Late Over 9 Months				1	2
Late Over 12 Months					2

# Audit Report Timeliness

## Timeliness of Municipal Audit Reports





# State Legislation Regarding Municipal Finances

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## **Corrective Action Plan to Address Audit Issues**

- Independent Auditors Opinion on Financial Statements
  - Rhode Island General Law 45-10-6.1 requires that if an auditor conducting the post audit of a municipality expresses an opinion on the financials that is other than unqualified the chief finance officer shall:
    - Prepare a detailed corrective action plan and timetable which addresses the issue(s) which caused the auditor's qualified opinion on the financial statements;
    - Submit the plan to the city or town council, state Auditor General, and state Director of Administration, within 45 days of receipt of the audited financial report.



# FY 2004

## Municipal Audit Report Summary

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- Audit Opinion
- Of the 39 municipalities:
  - 36 received an unqualified opinion
  - 2 received an adverse opinion
  - 1 has a fiscal year end of 10/31 and the report is not due until 4/30

The adverse opinions resulted from the following:

- The Basic Financial Statements included only the primary government. The Basic Financial Statements did not include the financial data for the legally separate component units as required by GAAP.
- Management had not conducted a comprehensive inventory and accounting of capital assets of its governmental activities and accordingly has not recorded depreciation expense of those assets.





# State Legislation Regarding Municipal Finances

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## **Corrective Action Plan to Address Audit Issues**

- Independent Auditors Findings and Recommendations
  - Rhode Island General Law 45-10-6.1 also requires that:
    - All findings and recommendations reported by the auditors, including those reported in a separate letter, be submitted to the state Auditor General and state Director of Administration;
    - The chief finance officer of the municipality:
      - Prepare a corrective action plan and timetable for all findings and recommendations ;
      - Submit the plan to the city or town council, state Auditor General, and state Director of Administration, within 45 days of receipt of a written report or letter of findings and recommendations from the auditors.



# FY 2004

## Municipal Audit Report Summary

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- Independent Auditor's Report on Internal Control over Financial Reporting and Compliance over Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
  - 4 municipalities had instances of non-compliance reported
  - 12 municipalities had reportable conditions reported, of which 5 had material weaknesses reported



# Government Auditing Standards (Yellow Book) Definition

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- Auditors Consideration of Internal Control over Financial Reporting
- Reportable Condition
  - Reportable Conditions involve matters coming to the auditors attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.



# Government Auditing Standards (Yellow Book) Definition

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## ■ MATERIAL WEAKNESS

- A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



# FY 2004

## Municipal Audit Report Summary

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- Management Letters
  - 21 reports made reference to a management letter, of which 11 have been submitted.
  - A total of 18 management letter have been submitted (including those not referenced in the Auditor's report).



# State Legislation Regarding Municipal Finances

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## **Developing a Plan to Reduce an Accumulated Deficit – Legal Requirements**

- Section 45-12-22 of the Rhode Island General Laws entitled "Indebtedness of Towns and Cities" was amended, as enacted June 27, 2003, by adding the following sections:
  - 45-12-22.1 Municipal Deficits – Purpose
  - 45-12-22.2 Monitoring of Financial Operations - Corrective Action
  - 45-12-22.3 Year-End Deficits
  - 45-12-22.4 Deficit Financing - Approval Required
  - 45-12-22.5 Unbudgeted Expenditures
  - 45-12-22.6 Cooperation of School Committee
  - 45-12-22.7 Enforcement and Remedies



# State Legislation Regarding Municipal Finances

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- The purpose of this law is to ensure that municipalities and school districts monitor financial operations on an ongoing basis, execute a rapid response to budget problems and maintain a balanced budget. The following is a summary of certain provisions of this law. To view all provisions, please click the legal references outlined above.



# State Legislation Regarding Municipal Finances

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## **Monthly Monitoring of Financial Operations**

- Rhode Island General Law 45-12-22.2 requires that:
  - The chief financial officer of each municipality and each school district shall submit a report, certifying the status of the municipal budget including the school department or regional school district's budget, on a monthly basis.
    - This monthly report shall be submitted to the municipality's chief executive officer, each member of the city or town council, and the school district committee.
    - The chief financial officer of the municipality shall also submit a report quarterly to the state office of municipal affairs certifying the status of the municipal budget.





# State Legislation Regarding Municipal Finances

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- Elements of the Reports:
  - The reports shall be in a format prescribed by the state Office of Municipal Affairs and the State Auditor General. A copy of this form can be obtained from the office of Municipal Affairs web page,
    - <http://www/muni-info.state.ri.us>
  - The reports shall include the financial operations of any department or fund of municipal government including the school department or regional school district, notwithstanding the status of the entity as a separate legal body.



# State Legislation Regarding Municipal Finances

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- The reports shall contain a statement as to whether any actual or projected shortfalls in budget line items are expected to result in a year-end deficit, the projected impact on year-end financial results including all accruals and encumbrances, and how the municipality and school district plans to address any such shortfalls.



# State Legislation Regarding Municipal Finances

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## ■ **Corrective Action Plan**

- If any reports required under this section project a year-end deficit the chief financial officer of the municipality shall submit to the state office of Municipal Affairs the monthly budget analysis report and a corrective action plan no later than thirty (30) days after completion of the monthly budget analysis (monthly reports).



# State Legislation Regarding Municipal Finances

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- Elements of the Plan:
  - It shall provide for avoidance of a year end deficit;
  - It may include recommendations as to whether an increase in property taxes and/or spending cuts should be adopted to eliminate the deficit.
  - It shall include a legal opinion by municipal counsel that the proposed actions under the plan are permissible under federal, state and local law.



# State Legislation Regarding Municipal Finances

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## ■ **Year End Deficits**

- Rhode Island General Laws Section 45-12-22.3 provides that if at the end of the fiscal year, the chief financial official determines, based on available data, that it is likely that the city or town's general fund or combined general fund and unrestricted school special revenue fund will incur a deficit, the municipality must immediately develop a plan to eliminate the deficit.



# State Legislation Regarding Municipal Finances

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- Elements of the Plan - The plan must, at a minimum, comply with the following provisions in the law:
  - Provide sufficient funds by annual appropriation to eliminate the entire deficit in a period not to exceed five years.
  - Provide annual appropriations for deficit reduction in equal or diminishing amounts during the five (5) year period.



# State Legislation Regarding Municipal Finances

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- Indicate the necessary governmental approvals and procedures required to implement the plan.
  - Include a legal opinion by municipal counsel that the proposed actions are permissible under federal, state, and local law.
  - Submit the plan to the Auditor General for approval before it is implemented.



# State Legislation Regarding Municipal Finances

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- The Auditor General shall determine whether the plan reasonably insures elimination of the accumulated deficit in accordance with the law in a fiscally responsible manner. The judgment of the Auditor General in applying this standard shall be conclusive.





# State Legislation Regarding Municipal Finances

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## **Developing a Plan to Fund Annual Pension Costs – Legal Requirements**

- Rhode Island General Laws Section 45-10-15 requires the following:
  - For any audit year in which a municipality contributes materially less than 100% of the annual required contribution to its pension plan(s) as reported in accordance with GASB Statement Number 27 Accounting for Pensions by State and Local Governmental Employers or any successor statement, the municipality shall submit to the Auditor General and the state Director of Administration:



# State Legislation Regarding Municipal Finances

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- The municipality's most recent actuarial study of the plan(s), and
- Management's recommendations for assuring future payments equal to the annual pension cost (APC).
- This information must be submitted within three (3) months of completion of the audited financial statement.



# FY 2004

## Municipal Audit Report Summary

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- Pensions

- Approximately 20 municipalities have un-funded pension liabilities
  - Approximately 10 have contributed less than 100% of the Annual Required Contribution



# State Legislation Regarding Municipal Finances

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- **Requesting Certification to Exceed the 5.5% Tax Cap Due to an Emergency Situation**
  - If a municipality plans to levy a property tax in excess of the five and one-half percent (5.5%) cap as defined in Rhode Island General Laws (RIGL) Section 44-5-2 entitled "Maximum Levy" it must obtain certification from the Department of Administration and in some cases also from the Office of the Auditor General (OAG).
  - The conditions under which a municipality must request certification from this office are described in the general laws as well as in the amended guidelines issued by our office in 1987.



# State Legislation Regarding Municipal Finances

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- In order to facilitate an application to this office, the municipal finance officer should submit the following:
  - A request to exceed the 5.5% tax cap signed by the municipalities chief executive officer;
  - Schedule A and Schedule B completed to support the amount of the total override requested from the OAG;
  - A detailed budget document for the current fiscal year, (if proposed emergency situation exist in school budget, include detailed line item budget for both town and school);



# State Legislation Regarding Municipal Finances

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- A detailed proposed budget document for new fiscal year with each emergency situation clearly identified in budget document, (if proposed emergency situation exist in school budget, include detailed line item budget for both town and school);
- Information supporting the emergency nature of each item requested (e.g., current and projected student population data for 3 or more years as evidence of significant growth in student population);
- Other information deemed relevant to your request.



# State Legislation Regarding Municipal Finances

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- Please mail your request to our office along with all required documentation at least 30 days before the date that you need our response.
- This procedure only applies to requests to this office for certification to exceed the 5.5% cap due to emergency situations.
- If you need an override for other conditions described in the general laws, you must continue to petition the Office of Municipal Affairs under the Director of Administration.
  - Phone - 401-222-2855
  - Web page – <http://www.muni-info.state.ri.us>



# State Legislation Regarding Municipal Finances

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- Effective October 2003
  - We have re-examined our guidelines and have determined that certain events do not categorically meet the definition of an emergency situation.
  - These events include an increase in medical insurance costs, and an increase in the employer's required contribution to employee pension plans. Therefore, in most circumstances we will not consider either of these events to meet the definition of an emergency situation. We will continue to consider each request on an individual basis in the event that other circumstances exist that would qualify an event as an emergency situation.
  - Municipalities and local and regional school districts should consider this information in planning future budgets.





# State Legislation Regarding Municipal Finances

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## **Rhode Island School Districts**

### **■ Local School Districts Deficits**

- Rhode Island General Laws Section 16-2-9 requires that:
  - The school committee of each school district shall be responsible for maintaining a school budget that does not result in a debt. (16-2-9 (d))
  - In the event that any obligation, encumbrance, or expenditure by a superintendent of schools or a school committee is in excess of the amount budgeted, or that any revenue is less than the amount budgeted, the school committee shall prepare and submit a corrective action plan as follows: (16-2-9 (f))



# State Legislation Regarding Municipal Finances

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- Within five (5) working days of its discovery of potential or actual over expenditure or revenue deficiency, submit to the town council president and such other person who by local charter or statute serves as the city or town's executive officer;
- A written statement of the amount of and cause for the over obligation or over expenditure or revenue deficiency, and
- A written statement of the school committee's plan for corrective actions necessary to maintain a school budget that does not result in a debt.
- Request approval of the plan from the Auditor General.



# State Legislation Regarding Municipal Finances

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- RIGL 16-3-11 state the same requirements for Regional School Districts. Rhode Island General Laws Section 45-12-22.1 through 45-12-22.7 also describe procedures to be followed by municipalities and local and regional school districts in monitoring their financial operations, reporting projected deficits, and developing corrective action plans.



# State Legislation Regarding Municipal Finances

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## **Local School District Appropriation Deficiencies**

- Rhode Island General Laws Section 16-2-21.4 requires that:
  - Whenever a city or town school committee determines that its budget is insufficient to comply with the provisions of the sections 16-2-21, 16-7-23, or 16-7-24 it must follow the steps required by section 16-2-21.4. This process may eventually result in a decision by the school committee to seek additional appropriations by bringing an action in the superior court.



# State Legislation Regarding Municipal Finances

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- When the school committee brings an action in the superior court to increase appropriations, the chief executive officer of the municipality shall cause to have a financial and program audit of the school department conducted by the Auditor General, the Bureau of Audits, or a certified public accounting firm qualified in program audits. The results of the audit shall be made public upon completion and paid for by the school committee to the state or private certified public accounting firm.
- This law has similar requirements for Regional School Districts.



# Six Bills Introduced to Both the Senate and the House on the Auditor General's Behalf Relating to Cities and Towns

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## 1. **S0530/H5842**

- Relating to Education-School Committees & Superintendents (Caroulo)
  - AG approves auditor for school performance audits,
  - Has access to work papers

## 2. **S0531/H 5840**

- Relating to the Levy and Assessment of Taxes
  - 5.5% tax cap, define emergency,
  - FTM process for complying with law

## 3. **S0532 /H5844**

- Relating to Towns and Cities-Pensions
  - Funding 100% of the ARC for self-administered plans



# Six Bills Introduced to Both the Senate and the House on the Auditor General's Behalf Relating to Cities and Towns

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## 4. **S0676/H5839**

- Relating to Audit of Accounts
  - Clarifies that schools & regional schools are also responsible for preparing corrective action plans for qualified opinions and findings & recommendations

## 5. **S0827/H5843**

- Relating to Taxation
  - One-time emergency override

## 6. **S0868/H5899**

- Relating to Towns and Cities-Audit of Accounts and Installation of Systems
  - AG access to work papers for municipalities & schools,
  - AG also approve auditor selection for regional school districts



# Budgeting

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## **HANDOUTS:**

- National Advisory Council on State & Local Budgeting
  - Recommended Budget Practices - A Framework for Improved State & Local Governmental Budgeting
- GFOA Recommended Practices
  - Appropriate Level of Unreserved Fund Balance in General Fund
  - Adoption of Financial Policies
  - Providing a Concise Summary of Budget





# Budgeting

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- **OAG Observations of Budgetary Weaknesses in Communities Experiencing Fiscal Problems**
  - Budget Not Balanced/Structural Problems
    - Unrealistic Revenue Estimates
    - Property tax collection rates (three year average)
    - Non local revenues (e.g. State Aid)
  - Unrealistic Expenditure Projections
    - Look at budget to actual trends from prior years and current year to date
    - Make annual required contributions to pension plans



# Budgeting

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- Use of One Time Revenue Sources/Unpredictable Revenue Source
- No Long Range Planning (5-year plan)
  - Operating & capital needs
- No Monitoring of Budgetary Compliance
  - Monthly budget to actual comparison projected out to year end
  - Report to Administration & Council
  - Prompt corrective action plans to bring budget into balance



# Analysis of Audited Financial Report

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## **ANALYSIS OF AUDITED FINANCIAL REPORT**

(Some key indicators of fiscal condition)

- Independent Auditors Report
  - OPINION
    - Unqualified (Clean)
    - Qualified
    - Disclaimer
    - Adverse



# Analysis of Audited Financial Report

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- Management's Discussion & Analysis
  - Prepared by management
  - Provides narrative introduction and overview and analysis of financial activities for the fiscal year
  - Un-audited but considered required supplementary information subjected to limited procedures.



# Analysis of Audited Financial Report

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- Basic Financial Statements
  - Government-Wide Financial Statements
    - Includes all primary government's governmental activities, business type activities, and component units.
    - Use same measurement focus and basis of accounting used by private sector business enterprises & nonprofit organizations.



# Analysis of Audited Financial Report

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- Fund Financial Statements
  - Governmental funds (e.g. general fund, special revenue funds – schools)
  - Proprietary funds (e.g. sewer & water)
  - Fiduciary Funds (e.g. self administered pension trust fund)



# Analysis of Audited Financial Report

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- Notes to Financial Statements
  - Immediately following government-wide and fund financial statements
  - Necessary to ensure that a complete picture is presented



# Analysis of Audited Financial Report

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- Required Supplementary Information
  - MD&A discussed above
  - Budgetary Comparisons
    - Compare actual results using budgetary basis with original budget and final amended budget for the general fund and each individual major special fund with an appropriated budget (e.g. schools)





# Analysis of Audited Financial Report

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- Trend Data
  - For funding of pensions and other post employment benefits



# Analysis of Audited Financial Report

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- Statistical Section

- Additional trend data and non-financial data useful in interpreting the financial statements and evaluating economic condition
  - (e.g. tax revenues by source, assessed values, property tax rates, property tax levies and collections, legal debt margin, demographics, principal employers)



# Analysis of Audited Financial Report

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## **OTHER INDICATORS OF FISCAL CONDITION**

- Management Letters
  - Reportable Conditions
  - Material Weaknesses
  - Require Timely Corrective Action
- Bond Ratings
  - Handout –Most recent Ratings and Definition of Rating



# Postemployment Health Care

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## **Postemployment Benefit Plans -**

- In 2004 GASB issued the following Statements:
  - Statement 43 – Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (April, 2004)
  - Statement 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. (June, 2004)



# Postemployment Health Care

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## **PURPOSE**

- GASB 43 - To require the accrual of liabilities of other postemployment benefits (OPEB) generally over the working career of plan members rather than on a pay as you go basis which is the current practice for most government sponsored plan.
  - Applies to OPEB plans that are included as trust funds in the financial reports of plan sponsors or employers, and to stand-alone financial reports of OPEB plans that are established as trusts, when issued by the public employee retirement systems, or other governmental entities that administer them.



# Postemployment Health Care

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- Provides a framework for transparent financial reporting by governmental entities that have fiduciary responsibility for OPEB plan assets regarding their stewardship of plan assets, the funded status and funding progress of the plan, and employer contributions to the plan."
- The approach taken generally is consistent with that adopted in the GASB's standards for pension plans, with modifications to reflect OPEB plan differences.



# Postemployment Health Care

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- GASB 45 To require the accrual of the OPEB expense over the same period of time
  - Generally requires states and local government employers to account for and report the annual cost of OPEB and the outstanding obligation and commitments related to OPEB in essentially the same manner as they currently do for pensions.
  - Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due.



# Postemployment Health Care

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- Provision applied prospectively and statement 45 does not require governments to fund their OPEB plans
- Employer may establish its OPEB liability as zero at beginning of the initial year of implementation
- However, un-funded actuarial liability is required to be amortized over future periods
- Required to disclose extent to which plan has been funded over time.





# Postemployment Health Care

Phase	Total Annual Revenues	GASB 43 applies for periods beginning after the following dates:	GASB 45 applies for periods beginning after the following dates:
1	\$1,000,000 or more	12/15/05	12/15/06
2	\$10,000,000 - \$100,000,000	12/15/06	12/15/07
3	Less than \$10,000,000	12/15/07	12/15/08

Note 1 – Based on a government's total annual revenues in the first year ending after 6/15/99.



# Postemployment Health Care

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- Implementation of these pronouncements will provide user of Government Financial statements with
  - Improved information about the cost of providing postemployment benefits,
  - The commitments that governments have made related to those benefits, and
  - The extent to which those commitment have been funded



# Government Finance Officers Association – Selected Recommended Practices

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- Accounting Auditing and Financial Reporting
  - Appropriate Level of Unreserved Fund Balance in the General Fund (2002)
  - Establishment of Audit Committees (1997 and 2002)
  - Establishment of an Internal Audit Function
  - Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets (1997, updated 2001)



# Government Finance Officers Association – Selected Recommended Practices

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- Budgeting and Fiscal Policy
  - Recommended Budget Practices of the National Advisory Council on State and Local Budgeting (NACSLG) (1998)
  - Adoption of Financial Policies
  - Providing a Concise Summary of the Budget (1996)



# Government Finance Officers Association – Selected Recommended Practices

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- Debt Management
  - Evaluating the Use of Pension Obligation Bonds
- Retirement and Benefits Administration
  - Health Care Cost Containment - 2004



## Government Finance Officers Association – Selected Recommended Practices

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- To obtain complete list of GFOA Recommended Practices refer to the GFOA web page
  - [www.gfoa.org](http://www.gfoa.org)



# INFORMATIONAL SEMINAR FOR MUNICIPAL OFFICIALS

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# QUESTIONS



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